VERTEX SECURITIES LIMITED, COCHIN-18

POLICY NO. 2

RISK MANAGEMENT POLICY

Title: ***Standard Operating Procedure for RMS Department(Equity)***		
Vertex securities Limited		Document Number : 1
Segment	***Approved by***	***Effective date:***
Equity and Equity Derivatives	Name:- Board of Directors	Review Date
Date: 16/01/2012	Date: 16/01/2012	19-01-2015

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Executive Director

Approved By : The Board of Directors in their Meeting dated 19-01-2015

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1. Introduction

This document details, the guidelines and procedures to be followed by the Risk Management Department for monitoring the risk of the client's exposure in Equity and Equity Derivative segments.

1.1 Objectives

1. To manage risk of the client & company by monitoring mark-to-market loss of the clients.
2. To monitor total funds available with exchanges and ensure uninterrupted trading facility.
3. Provide exposures to the clients based the available margin and on the request of branch/ region considering margin availability and business needs/risk factors.
4. Obligation shortfall management.
5. To assist in faster turnaround time thereby higher customer satisfaction and higher revenues

1.2 Background

In the broking business, the Risk management is the key to success. A good Risk Management Policy not only helps the broking company in achieving minimal bad debts, but also helps the business partners. It also restraints the clients from taking undue risk. However, while framing a risk policy, it has been considered that it does not become a constraint in the working of the business.

1.3 Scope of Document

The scope is limited to the procedure for the managing the risk of client's exposure by RMS Department.

1.4 Limitations of the document

The document is intended to be used only as an aid and is made after considering the current activities of the Vertex Securities Limited.

1.5 Modification of the document

The Board Authorises Managing Director, Mr. Kumar Nair for making any deviation, modification to this document and to place such deviation or

modification or any other changes duly carried, at the next Board Meeting for ratification by the Board.

2. Hierarchy in RMS Team

Managing Director

Mr. Kumar Nair

⇩

Executive Director

Mr. George Abraham

⇩

Vice-President

Mr. R Ganesan

⇩

Sr. Manager-Surveillaance & RMS

Mr. Antony Duglas Dsilva

⇩

Team - Surveillance & RMS

3. Policy and Procedures

3.1 Normal activation process of client codes

1. After the necessary documentation, branches forward the request to activate the client to KYC Department. On approval from the Exchanges, RMS receives mail from Compliance department, indicating the client code, name and segment, type of client (Online or Offline).
2. Client code is created in NEST Master by uploading file as per the specified format.
3. Client code is then mapped in the respective CTCL / Dealer IDs.
4. Prior approval from Compliance Department is required for mapping the same client in more than one location.
5. Exposure and general preferences for trading are entered and Cross checked by RMS Department.

3.2 Reactivation of client code-process.

1. Only suspended codes can be reactivated. (All the codes get suspended if there is no trading takes place for 6 months).
2. On receipt of a reactivation form from the branch, Compliance Department checks necessary fields and sends a mail to RMS for reactivation along with the details of CTCL, indicating the client code and segment
3. Manual Reactivation done in NEST.
4. Password is sent to the client's e mail ID (online clients)
5. Confirmation is sent to branches for all the reactivations

3.3 Activation /Suspension of CTCL Dealer IDs.

1 Request from branches is given to the Compliance department along with Branch name, Name of the person in whose name CTCL-ID will be allotted/suspended, Branch address, Pin code and contact number with a copy marked to Regional Head.

2. If all the mandatory details are found appropriate, Compliance Department uploads the information to the exchange.

3. Exchange gives confirmation after 24 hours.

4. After receiving confirmation from the exchange, Compliance Department sends a mail to the RMS department for creation of the CTCL- ID.

5. RMS department creates ID and inform the branch with the password.

6. Same process is followed for suspension of the CTCL IDs.

3.4 Client Map in to the Admin Machine

1. Confirmation for client map in received from Compliance Department through e-mail, specifying the Client Code and Client Name.

2. Client name and code are entered into the Admin System by the RMS Department to map the client codes to the user ids in the branches. (Map in done as per the request received from the branches)
3. Concerned branches are intimated by Compliance Department about the map in details

4. In the case of online clients, they have to sign online trading agreement and activate the account in OMNESYS NEST or NOW software as the client desires. RMS Department collects a confirmation e-mail from Compliance and Technical Departments to provide on line facility.

5. Rs. 500/- per month is charged towards the AMC for the NEST Diet users and checks their availability of credit every month by RMS Department. Online trading facility is suspended when there is no

sufficient credit in the client's account. Suspension details are informed to Technical, Compliance, and Accounts and to the branch.

3.5 Setting the Trading Limit for a new client

1. One time limit is provided to all new clients against cheque (one time for cheque value) as per the approval matrix mentioned below for delivery purchase in equity segment:

   - Up to Rs 1,00,000 - RMS Manager
   - Rs 1,00,000 – 2,00,000 - Vice President
   - Above 2,00,000 - ED/MD

   The above is applicable for existing clients also in the case of their account is zero

2. Scanned copy of the cheque is to be forwarded to RMS Department by the branch for Rs. 1, 00,000 & above.

3. All payments are to be through A/C payee cheques/DDs, and for DD's declaration signed by the client should be forwarded to the Accounts Department.

4. For DD's above Rs.50,000/- scanned copy of the DD should be forwarded to the RMS department along with the exposure request.

5. All the payments by the client are to be deposited in the bank account on the same day or latest by the next day morning to avoid delay in clearing.

6. DD should be favoring Vertex Securities Ltd and payable at local place where the branch is located.

7. All the payments from the clients should be from the designated bank of the client as specified in the KYC. If the payment is from any other bank,

proof of new account details are to be forwarded to Compliance Department for the back office updating.

8. On receipt of the cheques, Branch Manager has to ensure that the cheque is in proper:

   1) Date of the cheque
   2) Amount (words & figures)
   3) Signature
   4) Payees name
   5) Bank name and location
   6) No material alteration or correction

9. Branch has to forward the pay in details (cheques/DDs/online transfer) in the prescribed format to the e mail ID - ***payin@vertexbroking.com*** with a copy to ***surveillance@vertexbroking.com,*** and to ensure that the same is credited in the client's ledger. Branches need to send pay in e mail only after cheque / DD is deposited.

3.6 Standard Exposure Limits as per the RMS policy

1. The exchange is giving exposure as per the VaR margin, for all the scrips, we are setting the exposure to the clients against the available margin (cash balance + shares after deducting VaR margin). Our limit setting strategy is as follows:-

Particulars	**Exposure on the available margin**		
	Equity	**Futures**	**Options**
Intra Day	10 time	02 time	01 time

Delivery or Carry Forward	03 times	100% Span Margin as prescribed by Exchange	100% premium for buying and Span Margin as prescribed by Exchange for selling Options
Z group and illiquid stock	01 time	Not applicable	Not applicable

2. All **intraday limits** above 10 times till 15 times of the available margins needs to be approved by Vice president and above 15 times it needs to be approved by ED/MD

3. All **Delivery Limits** above 3 times till 5 times of the available margins needs to be approved by Vice president and above 5 times it needs to be approved by ED/MD

4. **Available Margin** Sum of credit balance available in the client ledger account and value of shares after applicable haircut, available in the client margin and beneficiary account

5. Branch Managers and Dealers are responsible to monitor the MTM loss on a real time basis and the positions are to be reduced before the MTM loss cross 80%, failing which the positions are to be squared off from RMS Department when it crosses 80%.

6. Intraday positions are to be squared off before 3.15 PM by the branch, failing which positions are to be squared off from RMS Department.

7. MTM loss in the Futures segment has to be cleared next day before 10.30 a m by remittance, failing which positions are to be squared off from RMS Department to the extent of margin shortage/MTM loss.

8. For selling shares lying in other DP, branches have to send ***e*** mail mentioning value of sell limit, scrip name, and client code and depository name. RMS Department sets the limit as per the approval from ED/VP. After selling the positions the shares are to be transferred to Vertex account on the same day itself. This limit shall not be used for any other intraday trading.

9. If any branch is facing connectivity/ technical problems, the positions should be squared on time through RMS Department by orders over phone or yahoo messenger.

10. In the case of newly listed scrips and highly volatile scrips branches are to ensure that the stop loss orders are punched.

11. One time selling limit is provided in case when debit balance is equal or more than the stock value after haircut. This limit cannot be used for any other intraday trading purpose.

12. In addition to the normal automated limit, additional exposures shall be provided by manual modifications as per the specific requests from the Branch Manger by giving due weight age, to the market condition and client's history.

3.7 Credits and debits in client's account

1. On receipt of the cheques/DDs the branch has to enter the payment details in the back office and after HO authorization/verification, branch has to ensure the correctness of the credit.

2. In the case of cheque bounces, Accounts Department has to inform the branch and RMS Department.

3. For pay-outs, branch has to send request to Accounts Department and they should take approval from RMS Department.

4. For transferring shares from margin account or pool to client's beneficiary account, Delivery Department should take approval from RMS Department.

3.8 Margin report to the exchange in Futures segment.

1. RMS Department has to send margin report to the exchange on a daily basis for the previous day's trade.

2. Client wise shortage of margin reported to the exchange by the RMS Department is to be intimated to the Accounts Department for the client wise accounting.

3.9 Client margin information

1. As prescribed by the exchange, RMS Department has to send the daily margin report by e mail to all the clients in all the segments.

2. RMS department has to send scrip wise span margin file to all the branches before 9.15am and the same has to be uploaded to the website (www.vertexbroking.com) by the Technical Department.

3. On a daily basis RMS Department has to send SMS of client's trade volume who have done business for 5 lakhs or more.

4. On a daily basis Technical department has to send the electronic contract notes (ECN) to all the clients.

3.10 Debit clearance in Equity segment.

1. On a daily basis RMS Department has to send e mail to the branches of the list of debtors outstanding above 3 days.

2. Based on the message branches have to collect the payment or square off the positions on T+4 day, failing which RMS Department has to square off the positions on T+5 day.

3. RMS Department has to send the e mail confirmation to the branches on the same day if the positions are square off by them to clear the debit.

4. Trading member is authorized to hold the shares in Pool account if there is any debit balance in the client Trading account until debit is cleared.

3.11 Password reset/Map in request/Trade modification request.

1. For password reset request, the branch/client need to send e mail to ***surveillance@vertexbroking.com***.
2. RMS department will send the password to the client's email ID for the online clients.
3. The minimum ledger balance must be Rs.1000/- to get NEST password.
4. For code modification - Branches need to send the request to RMS Department; these requests can be rejected if the modification requests are not found to be genuine.
5. All the code modifications are subject to audit. For all code modification, LBC (Ledger Balance Credit) of the clients are required.
6. On completion of the tasks, RMS department is expected to reply by return mail in details covering all of the above activities.

3.12 Action during connectivity failure.

1. NEAT (Trader Work Station) is provided at RMS Department Kochi, and branches can make use of it.

4. Exchange Co-ordination

1. Connectivity related issues
2. CTCL details upload by Compliance Department

5. Do's and Don'ts

1. Place orders within DPR (Daily Price Range) only, else those orders will be frozen by the Exchange System; such orders will block the Margin i.e. if free ledger balance is Rs.1,00,000 and margin applicable in such order is Rs. 5,000, free margin will be reduced by 5,000.

2. In case of any Connectivity issues/ Rates not being updated, contact Technical Department at Kochi on 0484-2384848 and Mumbai on 022-40010821 / 40010822 and also inform RMS Department for better coordination.
3. In case of any problem in Client's Positions displayed, branch has to contact RMS Department immediately.
5. No fresh position should be created after raising request for Payout (cash/stock).
6. Any delay in fund update or any difference in the ledger value, preferably Branch can get clarification from the Account Department. In case, the problem is not resolved, they can approach RMS Department for availing exposure.
7. Branches need to send pay in e mail only after cheque / DD is deposited.
8. Each CTCL ID should be logged into dedicated system by the branch.

6. RMS Team Contact:

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  - Cell: 9664111542
- **Manager – Jolly M M**
  - dougles@vertexbroking.com
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  - *0484 - 2771201 / 02 / 03 / 04*

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